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CONTENTS

INTERNATIONAL OIL: Large price increases almost certain.

PERU-USSR: Soviets offer to sell patrol boats.

[REDACTED]

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[REDACTED]

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[REDACTED]

[REDACTED]

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Next 1 Page(s) In Document Exempt

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INTERNATIONAL OIL: SUBSTANTIAL PRICE INCREASES ARE ALMOST CERTAIN TO BE ANNOUNCED BY THE PERSIAN GULF MEMBERS OF THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) MEETING IN TEHRAN TODAY. SAUDI OIL MINISTER YAMANI HAS SAID HE WOULD BE THE ONLY MEMBER TRYING TO KEEP THE LID ON PRICES AND WOULD CONSIDER THAT HE HAD DONE A GOOD JOB IF THE PRICE OF PERSIAN GULF CRUDE COULD BE KEPT AS LOW AS \$6 PER BARREL--AN INCREASE OF ABOUT 70 PERCENT. YAMANI INDICATED THAT RECENT BIDS OF \$16-18 PER BARREL FOR GOVERNMENT SALES OF IRANIAN AND NIGERIAN OIL HAD ELATED OTHER PRODUCERS AND BOLSTERED THEIR CONFIDENCE THAT A TRIPLING OR QUADRUPLING OF OIL PRICES COULD BE SUSTAINED IN TODAY'S MARKET.

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YAMANI'S OPINION OF THE INTENTION OF OTHER OPEC MEMBERS HAS BEEN CONFIRMED BY CONVERSATIONS BETWEEN THE SHAH AND THE US AMBASSADOR. [REDACTED]

[REDACTED] THE SHAH IS SERIOUSLY CONSIDERING A PROPOSAL FOR A NEW ARRANGEMENT THAT WOULD TIE CRUDE OIL PRICES TO COSTS OF ALTERNATIVE SOURCES OF ENERGY, WHICH THE SHAH ESTIMATES ARE THE EQUIVALENT OF \$8-14 PER BARREL.

PRICE INCREASES OF THE MAGNITUDE MENTIONED BY THE SHAH WOULD HAVE A STRONG IMPACT ON THE BALANCE OF PAYMENTS OF OIL-CONSUMING NATIONS. LESS DEVELOPED COUNTRIES, WITH LITTLE HARD CURRENCY TO SPARE, WOULD BE MOST SERIOUSLY AFFECTED UNLESS OPEC ARRANGED FOR THE SALE OF OIL TO THEM UNDER BARTER AGREEMENTS.

SKYROCKETING OIL REVENUES OF CERTAIN OIL PRODUCERS--SUCH AS SAUDI ARABIA, KUWAIT, AND LIBYA--WHICH HAVE LIMITED ABILITY TO UTILIZE CAPITAL WOULD CREATE MASSIVE FOREIGN ASSET ACCUMULATION PROBLEMS FOR THESE COUNTRIES AND COULD LEAD TO FURTHER PRODUCTION RESTRICTIONS. [REDACTED]

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25X1

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Central Intelligence Bulletin

3

25X1

25X1

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Next 1 Page(s) In Document Exempt

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PERU-USSR: A SOVIET OFFER TO SELL PATROL BOATS AND "OTHER EQUIPMENT" MAY INDICATE THAT MOSCOW IS STEPPING UP ITS EFFORTS TO BECOME A SIGNIFICANT ARMS SUPPLIER IN THE HEMISPHERE. MOSCOW MAY HOPE THAT PERU AND POSSIBLY OTHER LATIN COUNTRIES WILL BE LESS HESITANT TO BUY RUSSIAN WEAPONS, NOW THAT PRESIDENT VELASCO HAS PUBLICLY ACKNOWLEDGED THE ARRIVAL OF SOVIET TANKS LAST MONTH.

THE DELIVERY OF AT LEAST 25 AND POSSIBLY 35 MEDIUM TANKS TO PERU--WITH MORE ON ORDER--MARKS THE FIRST SALE OF MAJOR SOVIET WEAPONRY IN LATIN AMERICA OUTSIDE OF CUBA. IT IS UNLIKELY THAT PERU WILL AGREE TO PURCHASE OTHER SOVIET EQUIPMENT, HOWEVER, AT LEAST UNTIL ALL THE TANKS HAVE BEEN DELIVERED AND EVALUATED. SOVIET EFFORTS TO SELL PATROL BOATS TO PERU ARE NOT NEW; MOSCOW REPORTEDLY OFFERED THEM AS EARLY AS 1970.

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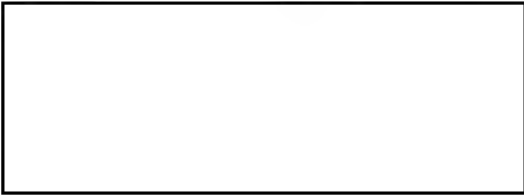
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